OWNERS AT WORK

THE NORTHEAST OHIO EMPLOYEE OWNERSHIP CENTER

Volume 1, No. 2 **Winter 1989**

STEELWORKERS VOTE TO CREATE REPUBLIC ENGINEERED STEEL

The analysts said that "the greatest hope for a sale of the bar division is to a foreign investor with deep enough pockets to fund needed capital improvements." Union leaders said they "were taking a wait-and-see attitude and hoping there's a good buyer." That was in November 1988. Rumors that LTV would sell the bar-mill division before emerging from reorganization under federal bankruptcy laws had finally materialized the month before when the Dallas-based LTV Corporation hired Shearson Lehman Hutton to seek qualified buyers.

Half a year later in March 1989, union officials announced that they were considering an employee buyout saying "it may be better for us to control our own destiny." Not all employees agreed; ultimately the presidents of the four largest of the nine union locals involved recommended against approving the buyout. But after a long and difficult process, steelworkers voted 2 to 1--the final count was 2,252 to 1,184--to buy the LTV Bar Division. (Since ESOPs, by definition, are employee benefit plans, they cannot be imposed upon a bargaining unit without its consent; hence, the affirmative vote was necessary to make the buyout possible.) The new, majority employee-owned firm has been renamed Republic Engineered Steel.

Joseph Coyle, USWA District 27 director, believes that those voting against the employee buyout may have done so for reasons unrelated to the employee-ownership plan. LTV's recent history has witnessed labor concessions, the company's bankruptcy, attacks on retirees' benefits, and threats of shutdown. Many dissenting votes, Coyle suspects, may have arisen out of the distrust stemming from those events. Moreover, employees have concerns regarding the future of Republic Engineered Steel as an employee-owned company. These include the scheduled closing of a Massillon facility as well as vulnerability to market conditions without a large corporation with a deep pocket to stand behind the new employee-owned company.

Both John Willoughby, LTV Steel spokesperson, and Coyle expect that the actual transfer of ownership will not meet the November 1 target date. The creation of the new company has been complicated by a number of factors: LTV Steel is in bankruptcy court, the Bar-Mill Division is spread across four states and nine separate locals have been involved in the negotiations. Willoughby and Coyle, however, are optimistic that the company will be employee-owned by the end of November.

Republic Engineered Steel will be the second largest employee-owned firm in the steel industry. Only Weirton, which employees bought from National Steel in 1984, is larger. The Weirton buyout also involved substantial employee dissent; it meant taking a 20% cut in hourly wages, accepting a no-strike clause and foregoing any cost-of-living increases. If these concessions were not enough to cause division, National only guaranteed pensions through November 1, 1988, and everyone knew that the plant needed hundreds of millions of dollars in new capital investment to be successful. Some of the workers nearing retirement preferred to take their pensions and let National shut the place down, but the likelihood of massive job loss--27% of Weirton's residents worked in the mill--led employees to vote overwhelmingly to buy the plant. As an employee-owned firm, Weirton Steel has been consistently profitable since the employee purchase.

As in most buyouts where the alternative is major job loss, the LTV employees are faced with some unpleasant choices. They too, like Weirton, will have to invest heavily if the new company is to succeed. The price tag on modernization is estimated to be about half a billion dollars. Part of this modernization will involve replacing antiquated hot-rolled bar mills at the Oberlin Avenue plant in Perry Township; that will eliminate 625 jobs over the next five years. Nevertheless, employee ownership will give the 4,250 hourly and salaried workers in Massillon and Canton more control over their destiny than if another buyer had purchased the division or if LTV had downsized it. Republic Engineered Steel's ESOP will own 93% of the new company; the remaining 7% will be made available to LTV's creditors in the form of warrants.

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On the Inside

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Hourly employees will own 76% of the ESOP stock while salaried employees obtain 24%. The board of directors will be comprised of three local union representatives, one USWA international representative, three salaried representatives, the chief executive officer and five outside directors including Ray Marshall, Secretary of Labor during the Carter Administration.

To help finance the purchase, the average employee will contribute about $4,000. Hourly workers will simply roll over part of their current holdings from an LTV employee-investment plan; salaried employees will contribute through payroll deductions. If what happened at Weirton can be recreated at Republic Engineered Steel, an employee's investment may appreciate substantially after the initial years. Weirton's employee owners saw their shareholder equity appreciate from $61 million at the close of 1984 to $288 million at end of 1988.

In addition to their investment, employees' commitment to the success of their company has already been evidenced by a turnaround from heavy financial losses in the Bar Division in 1986 to its current profitability. Russell Maier, the current Bar Division President, attributes the turn around to giving more responsibility to production workers over the last three years. Willoughby believes the ESOP will provide the opportunity for management and employees to pull together; it is management's goal to get everyone moving in the same direction.

Profile: Republic Engineered Steel

Products: Specialty bar steel for the automotive and armaments industries.

Employment: 4250 hourly and salaried in Ohio; hourly employees are organized by the USWA.

Sales: Approximately $800 million

ESOP: 93% ESOP will be created before the end of 1989. The remaining 7% will belong to LTV creditors.

THE NORTHEAST OHIO EMPLOYEE OWNERSHIP CENTER

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The Northeast Ohio Employee Ownership Center is a university-based outreach program which offers information and technical assistance to retiring owners, buyout committees, labor unions, managers and community development organizations interested in exploring employee ownership. Funded by grants from the Cleveland Foundation, the George Gund Foundation, and the Ohio Department of Development's Office of Labor/Management Cooperation, the Center offers timely information and ongoing technical assistance in situations where there is a threat of job loss. Staff can help locate competent legal and financial advice, will perform pre-feasibility assessments to determine whether employee ownership is a viable option and can assist with financing efforts and business plans.

NOEOC also develops resource materials on employee ownership and participation systems, sponsors workshops and conferences for the general public, holds training sessions for employee owners and facilitates cooperation among employee-owned firms throughout Ohio.

Owners at Work (ISSN 1046-5049) is published twice a year by the Northeast Ohio Employee Ownership Center. *Letters, articles, requests for permission to reprint, and subscriptions (which are free) should be sent to NOEOC.*

OTHER ORGANIZATIONS WHICH PROMOTE EMPLOYEE OWNERSHIP

Common Wealth
P.O. Box 6212
1331 Wick
Youngstown, OH 44501 (216) 744-2667

Common Wealth provides community education, organizing and technical assistance to facilitate the development of new democratically owned and managed enterprises, to help such existing enterprises grow, and to assist with employee buyouts of closing enterprises.

Cooperative Work Relations Program
71 South Plains Road
The Plains, OH 45780 (614) 797-2535

The Cooperative Work Relations Program is one of six state-supported Centers for Labor/Management Cooperation in Ohio. CWRP staff have expertise in employee-ownership theory and practice, pre-feasibility studies, and training for existing employee-owned companies.

Jobs for People
1216 E. McMillan, Suite 304
Cincinnati, OH 45206 (513) 251-9111

Jobs for People provides technical, financial, and administrative assistance for establishing new firms to employ the unemployed and underemployed within the Cincinnati economy.

Worker Owned Network
50 South Court St.
Athens, OH 45701 (614) 592-3854

Worker Owned Network provides technical assistance and training for unemployed persons to establish businesses which will be part of a network of companies owned and managed by workers.

NEW FEDERAL LEGISLATION MAY AID BUYOUTS

Ever since Youngstown workers tried to buy Sheet and Tube's Campbell works to prevent its shutdown in 1977, employee ownership has seemed an appealing option to avert plant closings. The success rate of buyout attempts has been low, however. Not only do employee groups have to struggle with the same financial problems that led to the shutdown without the deep pockets of the previous owners, they generally have to do so under severe time pressure. All too frequently, advance notice of the shutdown is measured in days, and a number of otherwise viable buyout efforts have failed just because time ran out.

New federal legislation, however, provides employees with a better chance to buy threatened facilities. The federal plant closing legislation that went into effect this year provides both for minimum advanced notice prior to shutdowns and for assistance for displaced workers which can, under exceptional conditions, be used to help avert shutdowns. These new laws are the Worker Adjustment and Retraining Notification Act (WARN), which will give 60 days advanced warning before major shutdowns and layoffs, and the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA), which empowers a specific group of state employees to explore alternatives to impending major losses of employment.

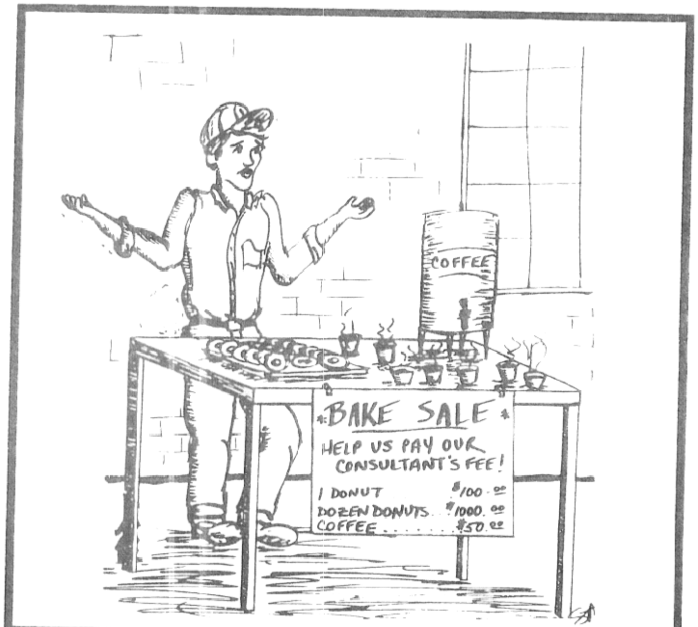
WARN

WARN requires that most businesses which employ at least 100 full-time employees, or 100 employees who as a group work 4000 hours per week, provide 60 days advanced notification of plant closings and mass layoffs. Plant closings are defined as both permanent and temporary shutdowns which affect at least 50 employees in any 30-day period; mass layoffs must affect at least 33% of the full-time employees and at least 50 employees or simply 500 employees during any 30-day period.

Companies must provide written notice to (1) each representative of the affected employees or to each affected employee, (2) the chief elected official of the local unit of government to which the firm pays the highest taxes, and (3) the State dislocated worker unit. For Ohio, this notification must be filed on a form that can be obtained by writing to the *Community Economic Assistance Team, Ohio Bureau of Employment Services, P.O. Box 1618, Columbus, OH 43216.*

EDWAA

EDWAA funds assistance to eligible dislocated workers which includes but is not limited to those employees affected by WARN. Eligible dislocated workers are individuals who have been terminated or laid off (or been given notice) and are eligible for or have exhausted their unemployment insurance; or been terminated or laid off due to a permanent closure or mass layoff; or unemployed for 26 weeks; or previously self-employed and affected by general economic conditions or natural disasters; or additional displaced workers such as displaced homemakers forced into the workforce by divorce.



New Legislation May Reduce The Need For Bake Sales

Local organizations, that receive state grants, based in Ohio's 31 Service Delivery Areas (SDAs) will deal with situations that affect less than 50 workers. For cases involving more than 50 employees, Ohio has created the Rapid Response Unit under the direction of Michael Hock. The Rapid Response Unit should begin working within 48 hours of notification with representatives from both the company and its workforce to help the employees adjust to the impending job loss. Under most circumstances the RR Unit will be coordinating employment services, unemployment compensation, and retraining programs. In some cases, however, it will be searching for ways to avert the job dislocation. In the latter case, employee ownership is among the alternatives.

The problem that the RR Unit faces is to screen the several hundred cases that come in under WARN to determine which belong in the handful where employee ownership offers a realistic chance to keep the plant open. The NOEOC is helping develop the criteria for looking at buyouts; NOEOC resources are, of course, available to

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New Legislation, from page three

workers covered by the new federal laws who choose to pursue employee ownership as an alternative to plant closings.

In those cases where an employee buyout may be a viable alternative to shutdown, the RR Unit has the authority to assist in this early stage in a number of ways. First, the fact that the RR Unit will be involved at least two months prior to a planned shutdown in WARN cases provides the buyout effort with a small window of time during which an owner can be convinced to continue operations until the purchase is completed. Second, the RR Unit can promote the formation of labor/management committees by financing some start-up costs and assisting in the selection of worker representatives when no union is present. Such a committee could be the team which coordinates the buyout. Third, the RR Unit can work with economic-development agencies to obtain financial and technical advice to avert dislocation. This includes providing funding, where other public or private resources are not expeditiously available, for a preliminary assessment of the advisability of conducting a comprehensive study exploring the feasibility of having a group of workers purchase the plant and continue it in operation.

EDWAA will also continue to fund on-the-job training, entrepreneurial training, and other appropriate training activities directly related to appropriate employment. In the case of a newly created employee-owned company, State funds for on-the-job training programs can reduce significantly the labor cost during the difficult start up phase when cash flow is particularly tight.

Limitations on WARN and EDWAA

Two months' notice prior to a plant shutdown is better than none, but it is far from enough time to put a buyout together, even with EDWAA assistance. Employee buyouts take six to twelve months even under ideal conditions, and shutdowns, obviously, are anything but ideal. Moreover, plants only two months away from closure are usually in poor shape due to a loss of customers, lack of reinvestment in equipment or absence of competent management.

Employee buyouts are more likely to be successful if employees can recognize the warning signals much sooner. The Midwest Center for Labor Research has developed a "Plant Closings Early Warning Indicators Checklist" which is a useful tool for identifying situations in which a shutdown may be pending long before it is announced. The additional time thus obtained can enable employees to explore buying threatened facilities before disinvestment strips them of productive assets and customers turn elsewhere. (To obtain information on the early warning system, contact the Midwest Center for Labor Research; 3411 West Diversey Avenue, Room 10; Chicago, IL 60647.)

One final comment. Too often in Ohio the plant threatened by shutdown today is yesterday's successful, family-owned business. When the family wanted out they were likely to sell to outside buyers. More often than not, these buyers milked the plant before selling it again to other outsiders, often a competitor or a conglomerate, more interested in the market and the customers than in the Ohio production facility. Unquestionably, however, the best way to use employee ownership to avert that shutdown would have been for the employees to have acted a decade ago when the plant first came on the market. It is a bit late to do that today, but the best way to arrest future shutdowns is for the employees to buy profitable plants when they come onto the market today *before* they are bought by outside interests and start the disinvestment cycle.

Conferences and Forums on Employee Ownership

November 17-18, 1989, Mohican State Park.
"Employee Owner Retreat," a two-day training seminar for employee owners in Ohio firms sponsored by the Northeast Ohio Employee Ownership Center. For more information call Dan Bell at (216) 672-3028.

December 4, 1989, Kent State University.
"Forum on ESOP Administration: Handling Repurchase Liability and Diversification Rules," sponsored by the Northeast Ohio Employee Ownership Center. For more information call the NOEOC at (216) 672-3028.

April 18-20, 1989, San Francisco.
The National Center for Employee Ownership's *"9th Annual Conference on Employee Ownership and Participation."* For more information call Karen Young at the NCEO (415) 272-9461.

April 27, 1989, Cleveland.
The Northeast Ohio Employee Ownership Center's 5th annual conference. For more information call NOEOC (216) 672-3028.

May 13-15, 1989, Washington, D.C.
The ESOP Association's annual convention. For more information call the ESOP Association (202) 293-2971.

NETWORK CONNECTS OHIO'S EMPLOYEE-OWNED FIRMS

Can Ohio employee-owned companies work together to achieve economies of scale? As the last issue of Owners at Work noted, a number of Ohio's employee-owned companies have been exploring how they might benefit from cooperating with each other. Concrete results to date include producing a catalog, Products & Services of Ohio's Employee-Owned Companies; establishing a training committee; running regular communications and participation forums; supporting the NOEOC training program for hourly employees on boards of directors; and starting an ongoing ESOP administration committee, which directed the NOEOC to arrange a forum on repurchase liability in December.

There has only been one problem: the bulk of the NOEOC's funds for such intercompany training activities have come out of a grant from the Ohio Urban Universities Program that has expired.

Employee-owned Companies Form Network

On September 20th managers from nine employee-owned companies in Northeast Ohio met to discuss whether the programs undertaken in 1988-89 were worth continuing and, if so, how they should be financed. Company representatives were enthusiastic in their support of the existing programs and proposed several new areas for joint activities for which the NOEOC could provide staff support.

The 1989-90 program blocked out at the September 22 meeting looks like this: Employee Owner/Board Member Training Series (October 11, 1989, February, May, August 1990); Employee Owner Leadership Development Retreat (November 17-18, 1989); ESOP Administration Forums (December 4, 1989 and May 1990); Middle Manager/Supervisor Forum (January 1990); Health Care Cost Containment Forum (February 1990); Participation and Communication Forums (March 1990 and September 1990); and the Annual Employee Ownership Conference (April 1990). The Center will also try to squeeze in a couple of forums where employee-owned companies can share expertise on exporting, government contracts, and newsletters.

Company representatives then turned to the more difficult issue of paying for the joint programs. They reached consensus that the most viable financing structure was to help fund the NOEOC through establishing Ohio's Network of Employee-Owned Companies as a dues-paying organization, essentially providing corporate memberships in the NOEOC. These annual payments will pick up the bulk of the costs for organizing the forums and joint training sessions. Network members will be entitled to participate at no cost in most of these activities and their additional expenditures will be limited to paying for meals and lodging at a couple events. It was decided that fees would be charged to non-members attending individual sessions. Members will also have priority and a discount when seeking NOEOC assistance for in-plant training. Network members will collaborate with the Center each fall in planning that year's agenda of programs.

First Ohio Employee Owner Retreat

The most ambitious new program sponsored by the network is a inter-company retreat for rank-and-file employee owners at Mohican State Park on November 17-18. The first day of the program focuses on group process skills, including communications, group decision making, and problem-solving skills. The second day focuses on understanding business finance, taking into account the unique financial aspects of firms with ESOPs. Instructors include Toni Riley, from the U.S. Department of Labor's Bureau of Labor-Management Relations and Cooperative Programs; Mark Barbash, of Miller & Schroeder Financial; and NOEOC staff.

Despite limiting the number of people any company could send, the thirty-six spaces at the leadership retreat were over-booked by twelve employee-owned firms a month before the event. If the program is as successful as the advanced booking, a second leadership retreat will be organized in 1990.

Memberships Still Available

So far, more than 51 of Ohio's estimated 275 employee-owned companies have participated in some of the NOEOC projects; a dozen have already become members of the Network. If your firm would like to become involved in these activities with other employee-owned companies committed to business innovation, participative management, and inter-firm cooperation, call Dan Bell at the Northeast Ohio Employee Ownership Center for further information.

Catalog of Products of Employee-Owned Firms Available

Whether you are in the market for golf equipment or rolling mills, insurance or weld fasteners, vending machine services or automatic guided vehicles, gym lockers or clay extrusion machines, you can buy what you need from Ohio's employee-owned companies. Request the free catalog *Products and Services of Ohio's Employee-Owned Companies* from the NOEOC.

EMPLOYEE OWNERSHIP WEEK CELEBRATED AT OHIO'S EMPLOYEE-

Ohio's employee owners put on their party hats, uncorked the champagne, and drank a toast to themselves during National Employee Ownership Week, October 1-7. Festivities were in high gear during the entire week as employee-owned firms across the United States recognized their worker owners for the important contribution they make to America's economy. In Ohio, companies celebrated by having parties, picnics, pot-luck dinners, open houses, visits by politicians, a balloon launch and even a ESOP Olympics. It was an exciting, successful week for many Ohio-based, employee-owned enterprises. A few of the week's highlights:

Park Poultry, which became 30% employee owned on September 1, had its principal owners cooking for its employees at a company-sponsored cookout during the week.

Fluid Regulators had a pot-luck luncheon for all its employee owners where Frank Hribar spoke about the status and future of the company.

Reuther Mold and Manufacturing held its first annual stockholders meeting and an employee-owner dinner on Wednesday, October 4. It also staged the ESOP balloon festival, where all of Reuther's employee owners simultaneously launched balloons from the front lawn of Reuther's plant on Tuesday, October 3. On hand for the colorful event were Cuyahoga Falls Mayor Don Robart and City Councilman Bud Cross.

What Employee Ownership Means to Me
by Ray Grueninger*

Being a co-owner of Yellow Springs Instrument, Inc. means that I am actively contributing, not only to the company, but ultimately to myself. ESOP confirms that I can participate in my destiny. The tasks that I perform are meant not only to please my "boss," but myself and my co-owners.

I am my investment in our company. I am responsible for our performance. I represent our company culture.

Because I own a piece of my "rock," I care and I want my co-owners to care also. We are not merely owners, collecting dividends determined by the efforts of others--we are participating owners.

ESOP could easily stand for "Everyone Shares Open Participation."

** Ray's essay won the Yellow Springs Instrument Company's contest: "What Employee Ownership Means to Me."*

Serex Services passed out buttons to all its employees and decorated its facility with banners proclaiming Employee Ownership Week to mark the occasion.

OWNED ENTERPRISES

State Representative John Shriver came to *Bliss-Salem's* factory for a tour on Tuesday October 3; and Mayor Alvahn L. Mondell officially proclaimed October 1-7 Employee Ownership Week in Salem.

Fastener Industries held three dialogues with its employees on "Is Our ESOP Different?" and held the Fastener ESOP Olympics during the entire week. The winner of the ESOP Olympics received the Fastener Cup, a stylish trophy made of parts manufactured by Fastener's various divisions.

Yellow Springs Instrument Company organized a job swap at its facility, an ESOP essay contest, and passed out t-shirts to all its employee-owners to celebrate the week. Groups of Yellow Springs employee owners toured two other local employee-owned firms: Antioch Publishing Company and the Morris Bean Company. They found that sharing their experiences with fellow employee owners is both fun and educational.

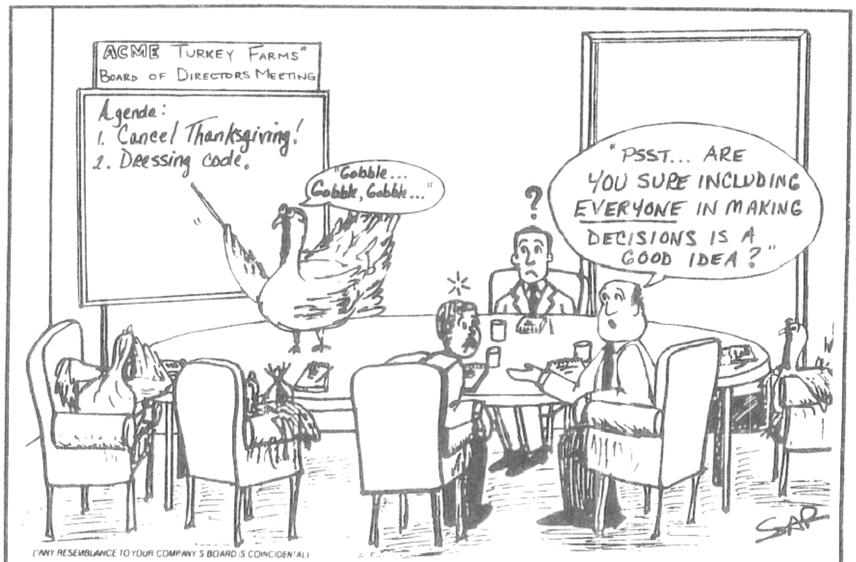
Resources on Employee Ownership

The Journal of Employee Ownership Law and Finance is the most ambitious publishing venture yet undertaken by the National Center for Employee Ownership. This new quarterly, refereed journal for ESOP professionals promises to "provide a forum for the timely exchange of information, opinions, ideas, and policy suggestions about employee ownership law and practice." Scholarly studies should be added to that list as well, judging from the debut issue, which includes Michael Conte's analysis of the impact of ESOPs in public companies on employee compensation, company earnings, and shareholder value; Lilli Gordon and John Pound's study of the impact of ESOPs on share value in takeover and non-takeover cases; and Gianna Durso's report on the NCEO's own study of the uses and impact of ESOPs in public companies. The journal is too academic and expensive ($75 for NCEO members and $100 for non-members) for a large readership, but will be widely used among professionals who will appreciate the NCEO's initiative in launching it.

Employee Stock Ownership Plans edited by Robert Smiley and Ronald Gilbert (New York: Prentice Hall 1989), $96.00. This monumental edited volume covers practically all issues of interest to ESOP professionals including valuation, accounting, administration, repurchase, communications, use in LBOs, and questions of tax, ERISA, and securities law. The detailed index and tables of contents for individual chapters will help make this volume the standard reference work on these issues for all but specialists; periodic supplements will be available to deal with legal or other changes. The value of the volume in the view of the NOEOC, however, is diminished by the underlying assumption of practically all the authors that *Employee* Stock Ownership Plans should be designed by management and run by management to achieve management goals. Don't let employees get involved in the discussions that shape the ESOP, Smiley and Gilbert recommend, because you might raise their expectations and then decide not to do anything; besides "most employees are not financially sophisticated about such decisions" and, even worse, "may be members of unions that have legal representatives whom you may not wish to involve until you are well prepared" (p. 5-4) precisely because they are, in fact, quite sophisticated about such matters. No wonder many employees -- and some Business Week writers -- think employee ownership is a rip-off! It is symptomatic that this book offers a good chapter on communications as a top-down process but lacks chapters on employee participation and the education needed to make employees act as informed owners. The honorable exceptions to this philosophy are the chapters by Jeff Gates and Karen Young that put the "employee" back into Employee Stock Ownership.

The Cooperative Workplace: Potentials and Dilemmas of Organizational Democracy and Participation by Joyce Rothschild and J. Allen Whitt (Cambridge: Cambridge University Press, 1986). $30.00. In this book, Joyce Rothschild--now chairman of the Department of Sociology at the University of Toledo--and Allen Whitt present case studies of five very different California-based collective organizations: a cooperative community medical school, an alternative high school, a food co-op, a collective newspaper, and a legal collective. The work is much more than a series of case studies, however; among other topics, it examines ESOPs, Quality of Work programs, the philosophical and political theories that form the foundation for collective action, and compares collective developments in different countries on an international level. It is a careful and insightful piece of scholarship, co-winner of the 1987 C. Wright Mills Award, that provides the reader with a comprehensive understanding of the internal and external factors that can facilitate or impede democratic methods of organization and production.

1990 EMPLOYEE OWNER CALENDER NOW AVAILABLE



DEVELOPING EMPLOYEE PARTICIPATION CAN BE A CHALLENGE

NOVEMBER

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
				1 ESOP Established 1985	2	3
4	5	6 Election Day	7	8	9	10
11 Veteran's Day	12	13	14	15	16	17
18	19	20	21	22 Thanksgiving Day	23	24
25	26	27	28	29	30	

NOEOC is bringing in the new year, literally, with the brand-spanking new, funny, and, at times, down-right silly, Ohio Employee Ownership Calendar. What better way to pass the days away than with twelve months of hilarious cartoons and a calendar full of the special dates of Ohio's employee-owned firms? It makes a great stocking stuffer. Don't be a turkey, order yours today. Size: folds to 9" x 12." Single copies $5; bulk order prices on request. To order, contact Jim Bado at the NOEOC (216) 672-3028.

EMPLOYEE OWNER FORUM

Republic Storage System's John O'Leary Speaks Out

When I was asked to make this speech about our ESOP, I wondered what a good title might be. I thought of two: "ESOP Great Expectations" and "ESOP Unfulfilled Expectations." I suppose both titles are appropriate since our great expectations, though perhaps poorly or only vaguely defined, have been unfulfilled. In early 1986, as we were working to put together our plans, I am sure every one of our employees--both salary and wage roll--wondered what lay in the future. What was an ESOP? How would it affect each of them as individuals? I would imagine that subconsciously each employee group--managers and workers alike--wondered how it would affect them collectively. What did ESOP really stand for?

Most of us had never heard of ESOP, let alone knew what it was. Well, today, I think we all know what it is: an ESOP is an Employee Stock Ownership Plan. It is governed by the pension section of the Internal Revenue Code. Anything after that definition is a topic for books and speeches. I guess the frustration of unfulfilled expectations stems from our own ignorance. We all probably thought the ESOP would veto human nature. After the ESOP, all workers--both in the plant as well as the office--would begin producing zero-deficit products. Each employee would automatically be more productive. Each supervisor or manager--those who had to--would change from an autocrat into a coach. No longer would he dictate what had to be done. Under the guidance of the "ESOP" he would solicit input from those he supervised. He would ask for suggestions on how the job might be done better. The worker too would change, as the worker would no longer create artificial barriers to improved productivity. Everyone thought that somehow industrial peace would reign. If our consultant was to be believed, we all would realize significant economic gains.

That was in 1986. A little over three years later I can say, while all of our expectations have not materialized, we have had some significant successes. Not the least is the fact that at the year's end we will have paid off one-half of our ESOP debt. We have granted three pay increases to all of our employees. Also, our very expensive defined benefit pension plans are in place. These are basically clones of the Republic Steel pension plans. We have 401-K plans for all of our employees. We have one of the best Group Health Insurance plans in town. By the way, our health-care costs next year are projected to be 90 percent more than what we have incurred, on average, over the last two years. Hard decisions must be made. Will the fact we are an ESOP aid or hinder us in our deliberations? How will the *company* best be served?

In any event, who, or rather what, is Republic Storage Systems Company? We are a 103 year old company that presently manufactures steel storage racks, shelving and lockers. A few years ago we added an Automated Storage and Retrieval System product line to the company. We are a part of the material handling industry. From our viewpoint, our particular segment of the market is plagued by over capacity and low-paid competitors. Over the last two and one-half years we, along with our competitors, have experienced significant increases in material costs. Our raw material costs alone have gone up close to 30 percent. This has exacerbated our problems as companies in our market segment became even more price competitive, sometimes just to meet the payroll. Adding to these problems, a few of our competitors have filed for bankruptcy under Chapter 11 of the Bankruptcy Code.

See Forum, page ten

Profile: Republic Storage Systems

Products: Steel storage racks, shelving and lockers for schools, gymnasiums, and health clubs; and automated storage and retrieval systems.

Employment: 350 hourly represented by USWA Locals 2345 and 5537; 200 salaried

Sales range: $50-60 million

ESOP: 100% ESOP, formed in 1986 to avoid a possible purchase of the Canton plant by buyers interested in transferring production elsewhere and shutting the Canton facility.

John O'Leary is Chief Financial Officer of Republic Storage Systems. These reflections on the practice of employee ownership were prepared for the Stark County Labor-Management Council's 3rd Annual "Quality; Our People, Our Future Conference" on October 3 and 4, 1989, in Canton.

Forum, from page nine

As companies walk away from their debts, they become leaner competitors. How does a fully leveraged ESOP with its attendant heavy debt respond to these competitive pressures? The nature of the decisions a business must make in order to remain viable do not change simply because of a change in ownership structure. Our company

We all probably thought the ESOP would veto human nature...everyone thought that somehow industrial peace would reign

today faces serious external competitive issues as well as serious internal, cost-planning issues--witness health care! Will the fact we are an ESOP help us or hurt us in our deliberations?

Joseph Blasi, in his excellent book on Employee Ownership, ask the question: "Is employee ownership a revolution or a rip-off?" He suggests the ESOP, unless properly structured, can be a rip-off--both to the Federal Government which supplies the tax breaks and to the employees. However, Mr. Blasi goes on to say employee ownership can be revolutionary in terms of the commitment it can create among the various work groups within an organization. He even suggests it can elicit the American version of Japanese loyalty to a company. But he points out very clearly the road to this utopia is very steep and winding. I would like to quote from his introduction:

> The intellectual rip-off of employee ownership is based on the belief that profit sharing and stock ownership *cause* success. However, when employee ownership provides limited equity *but retains the outdated notions* about worker motivation, compensation, work designs, and the roles of labor and management, it only recreates the system it was intended to replace. No amount of employee ownership or profit sharing will disguise the fundamental weakness of work tasks that are inefficiently organized or designed in such a way that they minimize the autonomy and interest of the employee.

Overcoming the weaknesses Mr. Blasi outlines will be difficult in a highly structured company such as ours. Republic Storage has job descriptions for each salary employee. We have a piece-part incentive system which includes a detailed description of every move a worker is paid to perform. I would suggest that back in America's glory days of the late 1940s, 1950s, and 1960s, most large industrial manufacturing companies had similar structures. Back then, American dominated the world's economy and could afford the luxury of inefficient manufacturers. This is not the case today. All of us realize we must change. The only question is who changes first and who changes most? Labor or management?

Certainly the idea of the ESOP was not to create a workers' paradise. George Will, a noted columnist, in a recent article in Newsweek stated a Russian philosopher once said that the trouble with socialism was that it deified the proletariat but had no respect for work. He went on to say the Soviet Union exploits its workforce more than any other industrial nation, paying only 37 percent of GNP in wages and salaries, about half the rate in Western nations. I submit the ESOP idea was not to deify or glorify the worker. It was to allow the American worker a chance to participate in redesigning the work place and, most importantly, to share in the economic benefits derived from that design.

If most corporations are as highly structured as ours was, and still is, what can be done to take full advantage of the knowledge and skill of the employees? Mr. Blasi states, and I feel we can all agree, that most people are willing to cooperate unless it alters other aspects of their lives--either economically or socially. In the abstract, most people inherently want cooperation and not confrontation. While this may be true in the abstract, it sometimes is in direct conflict with our baser instincts. If it is true each person or group subconsciously wants to cooperate, an environment must be created in which they can cooperate. One way to encourage cooperation is for these groups to identify with a common goal. Unfortunately, our traditional roles exaggerate our differences. What must be done is to encourage consensus builders to work with the different employee groups in order to identify the common interests which can unite them. Blasi states over and over that traditional roles must be challenged if America is to regain its competitive edge.

In the past it was generally agreed a company ran most efficiently when managed by a centralized authority. Some still believe that is so. Everyone had, and knew their role:

Upper-Management "managed" Middle-Management
Middle-Management "managed" supervisors
Supervisors "supervised" Workers

Some workers, according to Blasi, were *"managed"* by a union bureaucracy. While that may be an efficient way to run a company, in today's much more competitive economic environment that is not the most *effective* way to run a company. In a 100 percent ESOP, it certainly is not the *fair* way to run a company.

What are the ingredients of change? It will take a management willing to *share* their responsibilities as well as *share* their responsibility for the financial performance of their company to the degree their members affect that performance. If we are going to regain our competitive edge, the barriers between the worker and management must come down. The burden on both labor leaders and management is to allow consensus.

Again, let me quote Mr. Blasi on the theory of labor-management cooperation. The theory is based on the notion that, given an opportunity, the workforce could

understand the market
analyze relations between products produced and customers' needs
improve quality
evaluate production processes
help solve "problems"
monitor co-workers and managers

Mr. Blasi quotes a Harvard economist, a former Secretary of Labor, who in the past has been critical of the naive concept of employee ownership and participation. This economist suggested that by tapping the sources I just mentioned, productivity could be increased in many work sites by 50 percent. He stated wages alone are not sufficient to release this potential.

If we are going to regain our competitive edge, the barriers between the worker and management must come down...work redesign certainly cannot be accomplished by edict

With all of the potential benefit, what then is the problem? Unfortunately, it is simple human nature. It is the very common fear of change. People are being asked to do their jobs differently. Economics, per se, has little to do with it.

Mr. Blasi states that while employee ownership has developed primarily as a nonunion work innovation, there is little evidence that it is reformulating industrial relations. Even in the unionized sector, he feels it is merely a new tool in the old struggle between labor and management. The premise of his book, and it is one with which I agree, is that four steps must be taken to revitalize the corporation:

1) Employee ownership
2) Profit Sharing
3) Labor-Management cooperation
4) Work redesign

At Republic Storage we already have the first two--employee ownership and profit sharing. The last two--labor-management cooperation and work redesign--will be much more difficult to achieve. At Republic Storage we have been working hard on labor-management cooperation, unfortunately, with only mixed results. We are just now starting to talk about work redesign. Our attempts at structuring a gain-sharing program last year met with failure. While I feel our intentions were honorable, perhaps our methodology was lacking. Work redesign certainly cannot be accomplished by edict. It can only be accomplished by people with vision who have constructed a legitimate goal. The goal must be mutually beneficial. We cannot continue to simply negotiate from a position of self interest.

America is undergoing profound economic changes. Manufacturing in America is at a crossroads. Productivity must be increased if manufacturing in this country is going to survive. What does this mean in an ESOP? In an ESOP management and labor both bear responsibility for the company. If either the union or management cling to their historic, monolithic rolls, improvements will be slow to come and difficult to achieve. Extraordinary individual leadership in both management and union ranks--at all levels--must come to the fore if progress is to be made.

What the ESOP can do perhaps is provide the ideals around which change can be effected. America was built on revolutionary ideas and the frontier spirit. Today we are seeing our markets taken by hungrier, more aggressive cultures and competitors. We know we must effect change in order to survive. Perhaps the potential benefits of the ESOP will be enough of an impetus to allow the leaders of both labor and management to agree that "co-operation" is an idea whose time has come.

NEW STUDY DEBUNKS ESOP MYTHS

Over the past decade, numerous studies have shown the beneficial effects of ESOPs on businesses in terms of profits, net employment growth, and productivity. Together these studies apparently present a powerful picture of employee ownership's positive impact within many firms. In a new study, Employee Stock Ownership Plans in Ohio: Impact on Company Performance and Employment (Kent: NOEOC, 1989), however, John Logue and Cassandra Rogers test the prevailing assumptions about ESOPs and find many of them misleading.

The study focuses on Ohio-based, employee-owned firms; hence it provides an overview of how ESOPs have worked on a state-wide basis. The relatively high rate of response (61%) to the authors' questionnaire gives the study a scope that others have lacked because it includes firms that make small or irregular ESOP contributions as well as those that make large and regular contributions. The results confirm the authors' assertion that "not all ESOPs are created equal" and provide the reader with some answers to the vexing question of why some firms are more successful than others.

Results of the study paint a different picture of employee-owned firms than previous analyses have given. For instance, the study found that 56% of the companies with ESOPs established their plans primarily to take advantage of tax incentives. Without the tax benefits ESOPs provide, only 20% of the respondents stated that they would still have set up their ESOP. Ohio ESOP plans covered a smaller proportion of company employees than expected; the average plan covered only about 40% of the company's workforce, and 57% of unionized companies excluded union members from their ESOPs. If this proportion is projected to the entire United States, it would suggest that estimates of more than ten million employee owners nationwide are overstated.

This study, like several others--and contrary to most reports in the media--finds that the typical ESOP is created without wage and benefit concessions from employees. In fact, wage and benefit concessions played a role in the ESOP's creation in only three of the sixty-three companies surveyed. The vast majority of Ohio ESOPs, 46 of 63, were created as additional benefits to employees; 13 were conversions from profit-sharing plans, and three firms substituted ESOPs for pension plans.

Logue and Rogers' study focuses on comparisons among employee-owned firms, rather than on comparisons between employee-owned and conventional companies. The inclusion of a large number of ineffective ESOPs in the study not only produces more realistic -- and lower -- estimates of the financial impact of ESOPs, it also enables the authors to distinguish the characteristics of the successful ESOP from the unsuccessful one.

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